

SunOpta Inc.
Form 10-Q
August 10, 2007

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended **June 30, 2007**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission File No. 0-9989

SUNOPTA INC.

(Exact name of registrant as specified in its charter)

CANADA

(Jurisdiction of Incorporation)

Not Applicable

(I.R.S. Employer Identification No.)

**2838 Bovaird Drive West
Brampton, Ontario L7A 0H2, Canada**
(Address of Principal Executive Offices)

(905) 455-1990

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act)

Large accelerated filer - No Accelerated filer - Yes Non-accelerated filer - No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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At July 30, 2007 registrant had 56,639,449 common shares outstanding, the only class of registrant's common stock outstanding. There were no other classes of stock outstanding and the aggregate market value of voting stock held by non-affiliates at such date was \$637,760,196. The Company's common shares are traded on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol STKL and on the Toronto Stock Exchange under the symbol SOY.

There are 42 pages in the June 30, 2007 10-Q and the index follows the cover page.

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June 30, 2007 10-Q

SUNOPTA INC.
FORM 10-Q
For the quarter ended June 30, 2007

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All financial information is expressed in United States Dollars. The closing rate of exchange on July 30, 2007 was CDN \$1 = U.S. \$0.9360

PART I - FINANCIAL INFORMATION

Item 1 -

Condensed Consolidated Financial Statements

SunOpta Inc.

For the Three and Six Months Ended June 30, 2007

(Unaudited)

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SunOpta Inc.

Condensed Consolidated Statements of Earnings

For the three months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	June 30, 2007	June 30, 2006
	\$	\$
Revenues	207,977	155,745
Cost of goods sold	167,859	128,399
Gross profit	40,118	27,346
Warehousing and distribution expenses	4,969	3,834
Selling, general and administrative expenses	22,962	14,600
Intangible amortization	1,012	737
Earnings before the following	11,175	8,175
Interest expense, net	(1,817)	(1,748)
Other expense	(217)	(194)
Foreign exchange	227	597
	(1,807)	(1,345)
Earnings before income taxes	9,368	6,830
Provision for income taxes	2,296	2,087
Net earnings before minority interest	7,072	4,743
Minority interest	322	400
Net earnings for the period	6,750	4,343
Change in foreign currency translation adjustment	5,546	1,860
Comprehensive income	12,296	6,203
Net earnings per share for the period (note 6)		

Basic	0.11	0.08
Diluted	0.11	0.08

(See accompanying notes to condensed consolidated financial statements)

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SunOpta Inc.

Condensed Consolidated Statements of Earnings

For the six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	June 30, 2007	June 30, 2006
	\$	\$
Revenues	391,417	289,057
Cost of goods sold	316,457	238,083
Gross profit	74,960	50,974
Warehousing and distribution expenses	9,907	7,492
Selling, general and administrative expenses	43,989	27,787
Intangible amortization	1,995	1,281
Earnings before the following	19,069	14,414
Interest expense, net	(3,729)	(3,147)
Other expense	(406)	(279)
Foreign exchange	309	389
	(3,826)	(3,037)
Earnings before income taxes	15,243	11,377
Provision for income taxes	4,119	3,490
Net earnings before minority interest	11,124	7,887
Minority interest	524	532
Net earnings for the period	10,600	7,355
Change in foreign currency translation adjustment	6,211	1,747
Comprehensive income	16,811	9,102
Net earnings per share for the period (note 6)		
Basic	0.17	0.13
Diluted	0.17	0.13

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(See accompanying notes to condensed consolidated financial statements)

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June 30, 2007 10-Q

SunOpta Inc.

Condensed Consolidated Balance Sheets

As at June 30, 2007 and December 31, 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	June 30, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 12)	29,680	954
Accounts receivable	99,708	73,599
Inventories (note 4)	171,626	126,736
Prepaid expenses and other current assets	7,896	8,129
Current income taxes recoverable	-	1,829
Deferred income taxes	1,824	1,824
	310,734	213,071
Property, plant and equipment	103,675	87,487
Goodwill (note 2)	54,433	49,457
Intangible assets, net (note 2)	48,771	47,943
Deferred income taxes	5,349	5,615
Other assets (note 9(a))	2,462	1,157
	525,424	404,730
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	63,813	40,663
Accounts payable and accrued liabilities	81,799	80,851
Customer and other deposits	570	957
Current portion of long-term debt (note 7)	7,947	8,433
Current portion of long-term payables	1,289	1,736
	155,418	132,640
Long-term debt (note 7)	68,456	69,394
Long-term payables	3,065	3,607
Deferred income taxes	12,268	12,156
	239,207	217,797
Preference shares issued by subsidiary (note 3)	26,890	-

Minority interest	10,809	10,230
Shareholders' Equity		
Capital stock (note 5)	166,876	112,318
Contributed surplus (note 5)	4,634	4,188
Retained earnings	61,938	51,338
Cumulative other comprehensive income	15,070	8,859
	248,518	176,703
	525,424	404,730

Commitments and contingencies (note 9)

(See accompanying notes to condensed consolidated financial statements)

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SunOpta Inc.

Condensed Consolidated Statements of Shareholders' Equity

As at June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	Capital	Contributed	Retained	Cumulative	
	stock	surplus	earnings	other	Total
	\$	\$	\$	income	\$
				\$	
Balance at December 31, 2006	112,318	4,188	51,338	8,859	176,703
Options exercised	1,237	-	-	-	1,237
Employee stock purchase plan	417	-	-	-	417
Public offering	51,882	-	-	-	51,882
Warrants issued	1,022	-	-	-	1,022
Stock based compensation	-	446	-	-	446
Net earnings for the period	-	-	10,600	-	10,600
Currency translation adjustment	-	-	-	6,211	6,211
Balance at June 30, 2007	166,876	4,634	61,938	15,070	248,518

	Capital	Contributed	Retained	Cumulative	
	stock	surplus	earnings	other	Total
	\$	\$	\$	income	\$
				\$	
Balance at December 31, 2005	106,678	3,235	40,379	9,792	160,084
Warrants exercised	60	-	-	-	60
Options exercised	2,639	-	-	-	2,639
Employee stock purchase plan	278	-	-	-	278
Stock based compensation	-	166	-	-	166
Net earnings for the period	-	-	7,355	-	7,355
Currency translation adjustment	-	-	-	1,747	1,747
Balance at June 30, 2006	109,655	3,401	47,734	11,539	172,329

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Statements of Cash Flow

For the three months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	June 30, 2007	June 30, 2006
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	6,750	4,343
Items not affecting cash		
Amortization	3,496	2,731
Deferred income taxes	983	115
Minority interest	322	400
Other	307	449
Changes in non-cash working capital (note 8)	(21,997)	229
	(10,139)	8,267
Investing activities		
Purchase of property, plant and equipment	(6,985)	(2,069)
Acquisition of companies, net of cash acquired	(13,380)	-
Other	(88)	182
	(20,453)	(1,887)
Financing activities		
Increase (decrease) in bank indebtedness	32,306	(7,478)
Borrowings under long-term debt	-	258
Repayment of long-term debt	(1,518)	(1,160)
Repayment of deferred purchase consideration	-	(260)
Proceeds from the issuance of common shares	887	2,107
Proceeds from the issuance of preference shares by subsidiary	27,880	-
Other	54	(241)
	59,609	(6,774)
Foreign exchange gain on cash held in a foreign currency	214	2
Increase (decrease) in cash and cash equivalents during the period	29,231	(392)
Cash and cash equivalents Beginning of the period	449	5,068
Cash and cash equivalents End of the period	29,680	4,676

See note 8 for supplemental cash flow information

(See accompanying notes to condensed consolidated financial statements)

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SunOpta Inc.

Condensed Consolidated Statements of Cash Flow

For the six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

	June 30, 2007	June 30, 2006
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	10,600	7,355
Items not affecting cash		
Amortization	6,927	5,346
Deferred income taxes	1,311	436
Minority interest	524	532
Other	544	557
Changes in non-cash working capital (note 8)	(58,323)	(6,467)
	(38,417)	7,759
Investing activities		
Purchase of property, plant and equipment	(12,362)	(4,824)
Acquisition of companies, net of cash acquired	(13,380)	(12,197)
Acquisition of patents, trademarks and licences	(887)	-
Other	(1,331)	171
	(27,960)	(16,850)
Financing activities		
Increase in bank indebtedness	21,734	5,358
Borrowings under long-term debt	1,500	2,800
Repayment of term debt	(7,504)	(2,304)
Repayment of deferred purchase consideration	(1,089)	(260)
Proceeds from the issuance of common shares	52,616	2,977
Proceeds from the issuance of preference shares by subsidiary	27,880	-
Other	-	(370)
	95,137	8,201
Foreign exchange (loss) gain on cash held in a foreign currency	(34)	111
	28,726	(779)

Increase (decrease) in cash and cash equivalents during the period

Cash and cash equivalents	Beginning of the period	954	5,455
Cash and cash equivalents	End of the period	29,680	4,676

See note 8 for supplemental cash flow information

(See accompanying notes to condensed consolidated financial statements)

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SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

1. Basis of presentation

The interim condensed consolidated financial statements of SunOpta Inc. (the Company) have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and in accordance with accounting principles generally accepted in the United States. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. For further information, see the Company's consolidated financial statements, and notes thereto, included in the Annual Report on Form 10K for the year ended December 31, 2006.

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the financial statements for the year ended December 31, 2006. All significant intercompany accounts and transactions have been eliminated on consolidation.

2.**Business acquisitions**

The Company completed two acquisitions in the quarter. All of these acquisitions have been accounted for using the purchase method of accounting and the condensed consolidated financial statements include the results of operations for these businesses from the date of acquisition. The following are the preliminary purchase allocations for these acquisitions:

	Congeladora del Rio S.A. de C.V. and Global Trading Inc.	Baja California Congelados, S.A. de C.V.
	(a)	(b)
	\$	\$
Net assets acquired:		
Non-cash working capital	2,766	3,598
Property, plant and equipment	4,397	2,875
Goodwill and intangibles	3,190	-

	10,353	6,473
Consideration paid:		
Cash consideration	6,853	6,473
Note payable	3,500	-
	10,353	6,473

a)

Congeladora del Rio S.A. de C.V. and Global Trading Inc.

On May 14, 2007, SunOpta Inc. announced that it has completed the acquisitions of the net operating assets of Congeladora del Rio, S.A. de C.V. ("Del Rio"), and all of the outstanding shares of Global Trading Inc., ("Global") for total consideration of \$10,353. Consideration included a combination of cash and notes payable and acquisition costs.

No additional consideration is payable under the agreement. The promissory notes payable to former shareholders bear an interest rate of 6% and are payable in quarterly installments over the next three years.

Del Rio operates a fruit processing facility in Irapuato, Mexico. The high quality facility processes strawberries, peaches, mangos, bananas, pineapples, honeydew melons and other fruits, into individually-quick frozen, block frozen and purees for the food service, industrial and retail markets. Under the terms of the agreement, SunOpta purchased all of the net operating assets, including working capital, equipment, land and buildings.

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June 30, 2007 10-Q

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

2.

Business acquisitions, continued

Global, the U.S.-based marketing agent for Del Rio located in Greenville, South Carolina, markets the fruits processed at Del Rio. Global's offices include executive management, sales, customer service and accounting support.

The acquisitions of Del Rio and Global provide additional capacity plus other synergistic opportunities to the SunOpta Fruit Group. In addition, the acquisition completes the Group's vertically integrated model for other fruit varieties, noted above, and expands its core production capabilities.

b)

Baja California Congelados, S.A. de C.V.

On May 4, 2007, SunOpta completed the acquisition of certain assets, including inventory, machinery and equipment, from Baja California Congelados, S.A. de C.V. ("BCC"), of Rosarito, Baja California, Mexico for total consideration of \$6,473. Consideration consisted entirely of cash and no additional consideration is payable under the agreement.

BCC is the leading frozen strawberry processor in Baja California, Mexico. Under the terms of the agreement, SunOpta purchased all of the physical assets of the production facility located in Rosarito and also assumed a long-term lease for the facility, located 20 miles south of San Diego, California. In addition, SunOpta entered into five year supply agreements with Andrew & Williamson Sales Co., ("Andrew Williamson") the San Diego-based former parent of BCC. The agreements provide for the supply of strawberries from both the Baja California and Oxnard, California growing regions to the Rosarito facility in addition to SunOpta's existing California facilities.

c)

Contingent consideration on companies acquired prior to 2007

Additional consideration of \$54 was realized related to the acquisition of Cleugh's Frozen Foods Inc. ("Cleugh's"). The amount was recorded in relation to Cleugh's achieving predetermined earnings targets.

3.

Preferred Shares Issued by Subsidiary

On June 8, 2007, the Company completed a private placement for the sale of 1,500,000 non-dividend bearing, convertible preferred shares of SunOpta BioProcess Inc. (SBI , formerly the SunOpta BioProcess Group) for gross proceeds of \$30,000. The company incurred issuance costs of approximately \$3,142 including the fair value (non-cash) assigned to warrants of SunOpta Inc. for \$1,022, issued as part of the financing. These costs have been netted against the carrying value of the preferred shares. The preferred shares do not bear any dividend rate and have a conversion feature which allows the holders to convert the preferred shares to common shares at any time on a one for one basis. At any time following the seventh anniversary of the closing date or upon the occurrence of a change in control, holders of the majority of preferred shares will have the right to require the corporation to redeem all of the preferred shares for a cash payment equal to the original issue price (\$20 per share). Should SBI complete a qualified initial public offering (greater than \$50,000), the preferred shares would automatically be converted into common shares upon closing of the transaction.

Included in issuance costs is the fair value attributed to warrants to purchase 648,300 common shares of SunOpta at a price of \$11.57 (exercisable anytime over six months from the date of closing) that were granted to the SBI investors. The fair value of these warrants was determined using the Black-Scholes method (note 4) and the fair value attributed to them was \$1,022.

The preferred shares are shown net of issuance costs and the value of the preferred shares will be accreted to the \$30,000 redemption value using the interest method over seven years (the redemption date). Annual accretion expense will be approximately \$446.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

3.**Preferred Shares Issued by Subsidiary continued**

In conjunction with the private placement, SBI granted 800,000 Restricted Stock Units (RSU) and 800,000 stock options (with an exercise price of \$20 per share) in SBI common shares to certain employees of SBI. The RSU's allow for a cash payment or grant of shares to the employees equal to the issuance price of a future initial public offering (to a maximum of \$20 per share). The RSU's and the stock options granted only vest if a change or control of SBI occurs or SBI completes an initial public offering and as such these units are considered performance based awards under FAS 123 and no expense is recorded in the financial statements until the contingent element has been resolved.

At the date of the grant, the Company estimates that the fair value associated with the stock grant is \$10,180 and RSU's is \$16,000. The fair value of the options was calculated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0%, an expected volatility based on industry peers of 77.7%, a risk-free interest rate of 4.0%, a forfeiture rate of 10.0% and a maximum life of up to 7 years. The fair value of the RSU's is calculated using the maximum \$20 per share that could be paid. Given that no market exists for the SBI common shares, there exists significant measurement uncertainty in assessing the values of these units.

4. Inventory

	June 30,	December
	2007	31,
		2006
	\$	\$
Raw materials and work in process	32,126	35,509
Finished goods	127,055	83,373
Grain	12,445	7,854
	171,626	126,736
Grain inventories consist of the following:		
Company owned grain	11,390	7,637

Unrealized gain (loss) on		
Sale and purchase contracts	2,158	1,340
Future contracts	(1,103)	(1,123)
	12,445	7,854

5.

Capital stock and contributed surplus

	June 30, 2007	December 31, 2006
	\$	\$
Common Stock (Issued and fully paid)		
63,103,383 common shares (December 31, 2006 57,672,053)	165,854	112,318
648,300 warrants (December 31, 2006 Nil)	1,022	-
Common Stock	166,876	112,318
Contributed Surplus	4,634	4,188

(a)

On June 8, 2007, the Company issued 1,500,000 non-dividend bearing, convertible preferred shares of SunOpta BioProcess Inc. (see Note 3). The investors in the private placement were also issued warrants to purchase 648,300 common shares of the Company at a price of \$11.57 any time until December 8, 2007. The fair value of the warrants is \$1,022, determined using the Black-Scholes method using a volatility of 53.5%, risk-free interest rate of 4.5% and a six month life.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

5.

Capital stock and contributed surplus continued

(b)

On February 13, 2007, the Company issued 5,175,000 common shares at a price of \$10.40 per common share, in respect of a public offering for gross proceeds of \$53,820. The Company incurred share issuance costs of \$1,938, net of a \$920 tax benefit, for net proceeds of \$51,882.

(c)

In the six months ended June 30, 2007, employees and directors exercised 213,175 (June 30, 2006 - 622,715) common share options and an equal number of common shares were issued for net proceeds of \$1,237 (June 30, 2006 - \$2,639).

(d)

In the six months ended June 30, 2007, 40,655 (June 30, 2006 - 41,111) common shares were issued for net proceeds of \$417 (June 30, 2006 - \$278) as part of the Company's employee stock purchase plan.

(e)

In the six months ended June 30, 2007, 250,000 (June 30, 2006 - 38,500) options were granted to employees at a price of \$10.86 - \$11.60 (June 30, 2006 - \$5.36 - \$10.00). The fair value of the options granted were \$1,209 (June 30, 2006 - \$ 76) estimated using the Black-Scholes option-pricing model with the assumptions of a dividend yield of 0% (2006 0%), an expected volatility of 53.5% (2006 - 55%), a risk-free interest rate of 4.0% (2006 - 4.0%), forfeiture rate of 15% (2006 - 10%) and an expected life of five to six years.

(f)

In conjunction with his promotion to Chief Executive Officer, Steve Bromley received an award of 10,000 shares of the Company's stock. The stock was granted 25% on February 8, 2007, plus an additional 25% will be issued on the anniversary for the next three years. Accordingly, 2,500 shares were issued from treasury and the Company recognized stock based compensation costs of \$29.

(g)

In the six months ended June 30, 2007, the Company recognized stock based compensation of \$446 (June 30, 2006 - \$166) related to the Company's stock options plans including the plan within Opta Minerals Inc.

(h)

In the six months ended June 30, 2007, no warrants were exercised, however, in the six months ending June 30, 2006, there were 35,000 warrants exercised and 35,000 shares were issued for proceeds of \$60.

6.

Earnings per share

The calculation of basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share reflect the dilutive effect of the exercise of warrants and options. The number of shares for the diluted earnings per share was calculated as follows:

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Net earnings for the period	6,750	4,343	10,600	7,355
Weighted average number of shares used in basic earnings per share	63,040,567	57,099,478	61,738,081	56,908,642
Dilutive potential of the following:				
Employee/director stock options	830,011	729,467	782,080	581,616
Dilutive Warrants	9,931	-	-	-
Diluted weighted average number of shares outstanding	63,880,509	57,828,946	62,520,161	57,490,258
Net earnings per share:				
Basic	0.11	0.08	0.17	0.13

Diluted	0.11	0.08	0.17	0.13
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SUNOPTA INC.

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SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

6.**Earnings per share continued**

Options to purchase nil and 117,000 common shares in the three and six months ended June 30, 2007 (June 30, 2006 174,800 and 264,800), respectively, have been excluded from the calculation of diluted earnings per share due to their anti-dilutive nature. Warrants to purchase 648,300 common shares in the six months ended June 30, 2007 (June 30, 2006 Nil) have been excluded from the calculation of diluted earnings per share due to their anti-dilutive nature.

7.**Long-term debt and banking facilities**

	June 30, 2007	December 31, 2006
	\$	\$
Term loan (a)(i)	45,000	45,000
Term loan (a)(ii)	8,500	10,000
Other long-term debt (b)	22,903	22,827
	76,403	77,827
Less current portion	(7,947)	(8,433)
	68,456	69,394

Subsequent to the quarter end, on July 4, 2007, the Company completed the expansion of our existing credit facilities adding additional lenders Rabobank and HSBC Bank to its lending syndicate. As part of this facility expansion, our operating line of credit in the United States has been increased by \$30,000 with an additional \$20,000 acquisition facility available for future strategic acquisitions. The numbers presented below do not reflect these increased limits. The additional operating line replaces other credit facilities that were eliminated earlier in 2007.

On February 28, 2007 the company repaid \$1,890 in term debt and repaid and terminated its \$20,000 asset based line of credit arrangement, both of which were secured by the assets of Cleugh's Frozen Foods, Inc. The assets of

Cleugh's Frozen Foods, Inc. have now been pledged as collateral under the syndicated lending agreement.

As of June 30, 2007 the syndicated lending agreement was as follows:

(a) Syndicated Lending Agreement

i) Term loan facility:

The term loan facility is at \$45,000 (December 31, 2006 - \$45,000). The entire loan principal is due on maturity. The term loan matures on December 20, 2010 and is renewable at the option of the lender and the Company.

ii) Revolving acquisition facility:

The acquisition facility of \$8,500 (December 31, 2006 - \$10,000) is payable in equal quarterly installments of the greater amount of (a) 1/20 of the initial drawdown amount of the facility, or (b) 1/20 of the outstanding principal amount as of the date of the last draw. Any remaining outstanding principal under this facility is due on October 31, 2009.

iii) Canadian line of credit facility:

The Company has a line of credit facility in Canada with a maximum draw of Cdn \$25,000 (\$23,465). At June 30, 2007, \$22,224 (December 31, 2006 - \$nil) of the facility was utilized including outstanding cheques plus an additional \$94 (December 31, 2006 - \$172) was committed through letters of credit.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2007 and 2006

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

7.

Long-term debt and banking facilities, continued

iv) US line of credit facility:

The US line of credit facility has a maximum borrowing of \$30,000. As at June 30, 2007 \$32,178 (December 31, 2006 - \$13,000) of this facility was utilized including outstanding cheques. Interest on borrowings under this facility accrues at the borrower's option based on various reference rates including U.S. bank prime rate, or U.S. LIBOR, plus a margin based on certain financial ratios.

All of the above facilities are collateralized by a first priority security against substantially all of the Company's assets in both Canada and the United States with the exception of the assets of Opta Minerals.

(b) Other long-term debt consists of the following:

	June 30, 2007	December 31, 2006
	\$	\$
As of June 30, 2007 Opta Minerals, Inc. utilized \$2,431 (Cdn\$2,590) of its \$4,693 (Cdn \$5,000) acquisition and capital facility. In addition, \$8,657 of the \$10,325 (Cdn \$11,000) term loan facility is outstanding at June 30, 2007. The loans require quarterly principal payments of \$401 of which \$282 (Cdn \$300) is payable in Canadian dollars.	11,088	9,429
Promissory notes issued to former shareholders bearing a weighted average interest rate of 5.6% (December 31, 2006 - 4.7%), unsecured, due in varying instalments through 2009	10,637	10,027

with principal payments of \$3,661 due in the next 12 months.

Term loans payable bearing a weighted average interest rate of 1.9% (December 31, 2006 7.1%) due in varying instalments through July 2009 with principal payments of \$322 due in the next 12 months.	685	2,631
Capital lease obligations due monthly with a weighted average interest rate of 6.9% (December 31, 2006 7.9%)	493	740
	22,903	22,827

(c) Additional Credit Facilities

Included in bank indebtedness are the lines of credit of the Company as described in 7(a) above and lines of credit of the Company's subsidiaries as follows:

i) **Opta Minerals Inc.:**

In addition to the term loan facility described above in 7(b), Opta Minerals, Inc. has a line of credit of \$11,733 (Cdn \$12,500). As of June 30, 2007 Opta Minerals, Inc. has utilized \$9,411 (December 31, 2006 - \$7,645) of the line of credit, including letters of credit outstanding of \$964.

These facilities have been collateralized by a priority security interest against substantially all of the Opta Minerals Inc.'s assets.

Cash on deposit with lending institutions has also been netted against borrowings under the lines of credit with the same institutions.

SunOpta Inc.

Condensed Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

8.**Supplemental cash flow information**

	<u>Three months ended</u>		<u>Six months ended</u>	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	\$	\$	\$	\$
Changes in non-cash working capital:				
Accounts receivable	(7,821)	(3,521)	(22,030)	(7,846)
Inventories	(30,420)	(6,880)	(36,256)	(7,358)
Recoveries of income taxes	-	759	1,829	1,847
Prepaid expenses and other current assets	326	1,189	356	264
Accounts payable and accrued liabilities	16,731	9,771	(1,835)	6,721
Customer and other deposits	(813)	(1,089)	(387)	(95)
	(21,997)	229	(58,323)	(6,467)
Cash paid for:				
Interest	1,945	1,685	3,926	3,138
Income taxes	701	726	1,099	825

9.**Commitments and contingencies**

(a)

One of the Company's subsidiaries, SunRich LLC filed a claim against a supplier for failure to adhere to the terms of a contract. In 2004 Sunrich was awarded the trial judgement and in the fall of 2006, the decision of the Appellate Court confirmed this judgement. In 2006, the Company collected \$2,014 in satisfaction of the judgement. The Company also has filed an application for the recovery of legal fees, included in other assets, which is currently outstanding with the Court.

(b)

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

10.**Proforma data (unaudited)**

Condensed proforma income statement, as if the acquisitions completed in 2006 and 2007 had occurred at the beginning of 2005, is as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	June 30, 2007 \$	June 30, 2006 \$	June 30, 2007 \$	June 30, 2006 \$
Revenue	210,190	180,712	397,562	339,251
Net earnings	6,734	4,715	10,529	7,807
EPS - Basic	0.11	0.08	0.17	0.14
EPS - Diluted	0.11	0.08	0.17	0.14

SunOpta Inc.

Condensed Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)

11.

Segmented information

Industry segments

The Company operates in three industries divided into six operating segments:

(a) the SunOpta Food Group (Food Group), processes, packages and distributes a wide range of natural, organic and specialty food products via its vertically integrated operations and is further divided into the following segments:

i)

SunOpta Grains and Foods Group is focused on vertically integrated sourcing, processing, packaging and marketing of grains and grain based ingredients and packaged products.

ii)

SunOpta Ingredients Group works closely with its customers to identify product formulation, cost and productivity issues and focuses on transforming raw materials into value-added food ingredient solutions with a focus on fiber based ingredient systems.

iii)

SunOpta Fruit Group focuses on providing natural and organic fruits, vegetables and related products to the private label retail, food service and industrial markets.

iv)

SunOpta Distribution Group (formally the SunOpta Canadian Food Distribution Group) represents the final layer of the Company's vertically integrated natural and organic foods business model, a national natural, organic, kosher and

specialty foods distribution system.

(b) Opta Minerals Inc., processes, distributes, and recycles silica free loose abrasives, industrial minerals, specialty sands and related products; and

(c) the SunOpta BioProcess Inc., markets proprietary biomass pre-treatment processing technology including pre-engineering, design and laboratory services with significant licensing and applications potential in cellulosic ethanol, food processing and pulp industries.

The Company's assets, operations and employees are located in Canada, the United States and Mexico.

SunOpta Inc.

Condensed Notes to Consolidated Financial Statements